

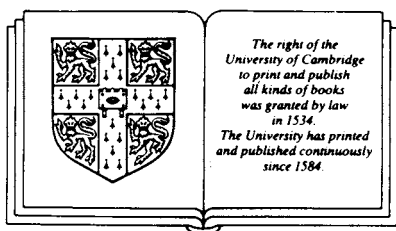
# Managing the franc Poincaré

Economic understanding and  
political constraint in French  
monetary policy, 1928–1936

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## Introduction

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No one contends that France experienced a revolution in economic policy during the Great Depression. Other industrialized countries, struck by massive unemployment, the collapse of industrial production, plummeting prices, and financial contraction, responded with various degrees of innovation to the problems of the 1930s – the New Deal in Roosevelt's America and the Nazi economic recovery in Germany are the most striking examples.<sup>1</sup> In France, all novelty and experimentation were rejected in the conviction that a durable recovery could be achieved only by a return to strict economic orthodoxy. Classical economics had not failed its human subjects; policy makers had failed to adhere to its teachings, and their attempts to improve on the operation of an unfettered market system were in large part responsible for the economic ills that afflicted the world economy.

Close examination of policy making in the 1930s has dispelled the notion that the economic crisis engendered revolutions in economic policy. In Britain, where the publication of John Maynard Keynes's *The General Theory of Employment, Interest and Money* in 1936 revolutionized economic theory, the evolution of Treasury policy was less spectacular. The Treasury was beginning to accept a government role in economic management in order to reduce unemployment and maintain reasonable price stability, but this was not, in the 1930s, a "Keynesian revolution" in policy making.<sup>2</sup> Recent studies of the Nazi economic

<sup>1</sup> John A. Garraty has compared policy responses to the depression in the United States and Germany in "The New Deal, National Socialism, and the Great Depression," *American Historical Review* 78 (Oct. 1973), 907–44, and in *The Great Depression* (New York: Harcourt Brace Jovanovich, 1986), 182–211. Peter Gourevitch has attempted a broader "political sociology" of policy formation in the United States, Britain, France, Germany, and Sweden in "Breaking with Orthodoxy: The Formation of the Mixed Economy, 1929–49," in his *Politics in Hard Times: Comparative Responses to International Economic Crises* (Ithaca, N.Y.: Cornell University Press, 1986), 124–80.

<sup>2</sup> On the evolution of Treasury policy in the 1930s and the influence of economists, see Susan Howson, *Domestic Monetary Management in Britain, 1919–38* (Cambridge University Press, 1975), Susan Howson and Donald Winch, *The Economic Advisory Council, 1930–1939* (Cambridge University Press, 1977), and Roger Middleton, *Towards the*

recovery call attention to the limited nature of the recovery, its traditional character in the early stages, and the role of state controls as an essential counterpart to increased government spending in order to sustain recovery, which would otherwise have been curbed by market forces.<sup>3</sup> Roosevelt's New Deal is interpreted as a series of speculative innovations determined by short-term political objectives, an "exercise in political eclecticism" that "had nothing to do with logic or consistency."<sup>4</sup>

Economic policy making in France has received considerably less attention. In fact, Stephen Schuker has commented recently, "Historians know less about the course of the Great Depression in France than in any other major nation."<sup>5</sup> Alfred Sauvy's *Histoire économique de la France entre les deux guerres* remains the most authoritative survey of these years.<sup>6</sup> Sauvy's breadth of approach, his valuable statistics on interwar economic performance, and his strong views on the short-

*Managed Economy: Keynes, the Treasury and the Fiscal Policy Debate of the 1930s* (London: Methuen, 1985). Alan Booth has described Treasury conversion to Keynesianism as "highly protracted" and in no sense revolutionary in "The 'Keynesian Revolution' in Economic Policy-Making," *EHR* 36 (Feb. 1983): 122–3; subsequent debate in the *Economic History Review* has cast doubt on the degree to which the Treasury converted to "Keynesian" management in the 1940s and early 1950s. For a brief overview and bibliography of this debate, see G. C. Peden, *Keynes, the Treasury and British Economic Policy* (London: Macmillan Press, 1988).

<sup>3</sup> See R. J. Overy, "Cars, Roads and Economic Recovery in Germany, 1932–8," *EHR* 28 (Aug. 1975), 466–83; Overy, *The Nazi Economic Recovery, 1932–1938* (London: Macmillan Press, 1982), and Harold James, *The German Slump: Politics and Economics, 1924–1936* (Oxford: Clarendon Press, 1986), 343–419.

<sup>4</sup> Albert U. Romasco, *The Politics of Recovery: Roosevelt's New Deal* (Oxford University Press, 1983), 5; although Roosevelt's retinue of advisers included Keynesians, they were "generally adherents of economic orthodoxy" embarrassed by budget deficits (see Hugh S. Norton, *The Quest for Economic Stability: Roosevelt to Reagan* [Columbia: University of South Carolina, 1958], 58–63). Herbert Stein characterizes the New Deal as a fiscal, rather than a Keynesian, revolution, in *The Fiscal Revolution in America* (Chicago: University of Chicago Press, 1969), esp. 131–68; see also Walter S. Salant, "The Spread of Keynesian Doctrines and Practices in the United States," in *The Political Power of Economic Ideas: Keynesianism across Nations*, ed. Peter A. Hall (Princeton, N.J.: Princeton University Press, 1989), 27–51. Hoover had better training in economics, but restricted himself to conventional state policies; see William J. Barber, *From New Era to New Deal: Herbert Hoover, the Economists, and American Economic Policy, 1921–1933* (Cambridge University Press, 1985).

<sup>5</sup> Stephen A. Schuker, review of Julian Jackson, *The Politics of Depression in France, 1932–1936* (Cambridge University Press, 1985), *Journal of Economic History* 47 (Dec. 1987), 1013.

<sup>6</sup> Alfred Sauvy, *Histoire économique de la France entre les deux guerres*, 4 vols. (Paris: Fayard, 1965–75); most subsequent references will be to the slightly revised edition in three volumes, published by Economica in 1984.

sighted political leadership that paid insufficient attention to economic data set his work apart as a landmark in the history of interwar France. But Sauvy gives little attention to actual policy formation. Monographs on French public works policy<sup>7</sup> and rearmament,<sup>8</sup> attempts at reinterpreting the arrival and nature of the depression in France,<sup>9</sup> and assessments of economic thought and policy within French political parties<sup>10</sup> have begun to trace the formation of French economic policy in the 1930s. In *The Politics of Depression in France, 1932–1936*, Julian Jackson studies policy debate and the political context in which decisions were made in order to explain the seeming “irrationality” of French policy in response to the depression. Jackson provides a stimulating analysis of the political debate, but devotes most of his attention to the ideas of the Left, where the more interesting and perceptive exchanges of views took place, rather than to the attitudes of the Right, which played a much larger role in determining policy. Jackson offers less discussion of the Right in part because there was a broad consensus on what had caused the depression and what needed to be done to foster a durable recovery. This consensus included the institutional forces that to a great extent set the policy alternatives, if not actual policy, on matters of economic and particularly monetary management. A knowledge of the roles of the Bank of France and the Ministry of Finance in policy determination is essential for understanding the decisions that were taken.<sup>11</sup>

<sup>7</sup> Pierre Saly, *La Politique des grands travaux en France, 1929–1939* (New York: Arno Press, 1977).

<sup>8</sup> Robert Frankenstein, *Le Prix du réarmement français (1935–1939)* (Paris: Publications de la Sorbonne, 1982).

<sup>9</sup> Jacques Marseille, “Les Origines ‘inoportunes’ de la crise de 1929 en France,” *Revue économique* 31 (July 1980): 648–84; Marseille, “Les Aspects spécifiques de la crise en France,” *CHIMT* 16 (1976): 83–8; Serge Wolikow, “La Crise des années trente en France, aspects spécifiques,” *CHIMT* 17–18 (1976): 11–48; and J. Mazier, Y. Picaud, G. Podevin, and H. Bertrand, “Les Deux crises des années 1930 et des années 1970,” *Revue économique* 33, no. 2 (1982): 259–63.

<sup>10</sup> See Serge Wolikow, “Le P.C.F. devant la crise (1929–1931),” *CHIMT* 11 (1975): 32–91; Michel Margairaz, “Les Socialistes face à l’économie et à la société en juin 1936,” *Le Mouvement social* 93 (Oct.–Dec. 1975): 87–108; Serge Berstein, “Les Conceptions du Parti radical en matière de politique économique extérieure,” *Relations internationales* 13 (1978): 71–89; and Jackson, *Politics of Depression*, 35–49.

<sup>11</sup> A valuable study of the Mouvement général des fonds has just been completed by Michel Margairaz, “L’Etat, la direction des finances et de l’économie en France (1932–1952): Histoire d’une conversion,” Thèse d’état, Université de Paris I, June 1989. Martin Wolfe’s *The French Franc Between the Wars, 1919–1939* (New York: Columbia University Press, 1951) is a valuable economic survey of the interwar years focusing on financial history, but it was written from published sources before access to Bank



Preservation of the franc Poincaré dominated French policy during the depression. The refusal of the French to alter the value of the franc until they were forced to devalue in September 1936 imposed a deflationary economic program that stifled economic activity in France while nations that had depreciated their currencies were experiencing recovery. By 1935, when Britain, the United States, and Germany were showing substantial economic improvement, France had slipped back to the low levels of production touched in 1932 and did not recover completely until after the Second World War. Asked in 1935 by students in Sweden (which had devalued in 1931) why France did not devalue, Paul Reynaud replied that "the French, even when they are socialists, are at heart conservatives. For them, the currency has a sacred character. They dare not touch it."<sup>12</sup>

The French believed that monetary stability was the necessary foundation for any recovery, and abandonment of the franc Poincaré would open the way to financial and monetary chaos. The monetary reform of 25 June 1928 had ended a decade of inflation and currency instability produced by the inflationary financing of the war and reconstruction; the stabilization achieved by Raymond Poincaré in 1926 and ratified by the monetary reform law had been dearly won.<sup>13</sup> The cost, an 80% devaluation of the franc, was believed to reflect an 80% loss of national wealth. The memory of the instability of the 1920s would weigh heavily in determining policy for the 1930s; policy would be guided by the lessons learned from the Poincaré stabilization.

The de facto stabilization of the franc in December 1926 at 124 francs to the pound was considered unacceptably low by many who wanted *revalorisation*.<sup>14</sup> No one in 1928 believed the franc could be restored to its prewar parity of 25 francs to the pound, but some argued that a four-fifths devaluation would undervalue the franc and set off a new inflationary spiral that would jeopardize the stability achieved since 1926. A slight appreciation to 100 francs to the pound would avert a rise in

of France and Ministry of Finance records was possible and does not address policy formation.

<sup>12</sup> Paul Reynaud, *Mémoires*, vol. 1, *Venu de ma montagne* (Paris: Flammarion, 1960), 384.

<sup>13</sup> The best account of the franc crisis and stabilization in 1926 is that in Jean-Noël Jeanneney's *François de Wendel en République: L'argent et le pouvoir, 1914-1940* (Paris: Seuil, 1976), 179-354; the memoirs of Emile Moreau, appointed as governor of the Bank of France in June 1926, are also extremely valuable (*Souvenirs d'un gouverneur de la Banque de France: Histoire de la stabilisation du franc [1926-1928]*) [Paris: Editions M.Th. Génin, 1954]. The earlier monetary crisis of 1924 is particularly well served in Stephen A. Schuker, *The End of French Predominance in Europe: The Financial Crisis of 1924 and the Adoption of the Dawes Plan* (Chapel Hill: University of North Carolina Press, 1976).

<sup>14</sup> See Jeanneney, *François de Wendel*, 380-409, and Moreau, *Souvenirs*.

domestic prices that would otherwise lead to demands for higher wages, require higher taxes, and unbalance budgets.<sup>15</sup> The other reasons evoked were less compelling: that holders of government debt would believe their interests had been sacrificed by stabilization at a lower level than was necessary and that on grounds of prestige the French devaluation could not be greater than the 75% devaluation of the Italian lira.<sup>16</sup>

The devaluation was accepted as necessary to pay the costs of the war; the franc Poincaré was expected to restore the currency stability France had known throughout the nineteenth century with the franc germinal, created in 1803.<sup>17</sup> It was to last only eight years, and its preservation until 1936 sacrificed economic well-being to defense of the currency. The depression brought falling prices and currency depreciations that made preservation of the franc ultimately impossible without exchange controls. Convinced that defense of the franc Poincaré was essential to recovery, the French drew on the lessons learned in the 1920s: concentrating on reducing the budget deficit to maintain confidence and reducing domestic prices to compensate for currency depreciations abroad. Both objectives were necessary to maintain the franc; neither proved attainable. Until the devaluation in 1936, French prices remained higher than world prices despite government deflationary efforts. At the same time continuous government borrowing weakened public confidence, raising interest rates and thus the cost of borrowing. The French economist Charles Rist claimed in 1937, "The greatest brake which has been applied to French economic recovery in the last few years is the constant rise of interest rates, due to the uninterrupted appeals which the state has been obliged to make to the capital market, under increasingly unfavorable conditions."<sup>18</sup> As confidence deteriorated, political crises turned capital flows away from the franc and produced scrambles for gold and foreign exchange that required still higher interest rates. Under such conditions cheap money was impossible. And without economic recovery to reverse the decline in government receipts, there was no hope that budgets could be balanced by spending cuts alone. By the late 1930s, economic stagnation

<sup>15</sup> Jeanneney, *François de Wendel*, 404–5; André Thiers, *Ni inflation, ni déflation* (Paris: Librairie des sciences politiques et sociales, 1934), 28–35.

<sup>16</sup> Jeanneney, *François de Wendel*, 382.

<sup>17</sup> "Frenchmen became obsessed with the idea that the 'Poincaré franc,' shrunk though it was, must never again be devalued, lest they be ruined anew. The obsession became a national neurosis." William L. Shirer, *The Collapse of the Third Republic* (New York: Simon & Schuster, 1969), 166.

<sup>18</sup> Charles Rist, Foreword to "La France économique en 1936." *REP* 51 (1937): 489–94.

tainted perceptions of French military strength both in France and abroad. "What sorrow," Robert Marjolin lamented in 1938,

when one thinks of the decline in French power in the last seven or eight years. Our economy has stagnated at its lowest level in a quarter century; we no longer have aircraft, and tomorrow our army will see its relative strength diminished because who could believe that we will conserve a strong army in the midst of an economy in complete decline?<sup>19</sup>

Defense of the franc was in itself orthodox and unremarkable: Sterling and the dollar were defended until circumstances imposed depreciation; the German mark and Italian lira were protected by exchange controls to escape devaluation. The French experience was singular not for the attempt to preserve the franc's gold value,<sup>20</sup> but for the perseverance with which that defense was conducted when devaluations abroad and deflation at home indicated that the battle was not just futile, but injurious to French prospects of recovery.

This book examines French monetary management from 1928 to 1936 in order to explain the defense of the franc Poincaré, the evolution of French policy making on monetary matters in reaction to the depression, and the interaction of political and economic forces that worked against innovation and created a policy paralysis, excluding positive initiatives to stimulate recovery. Chapter 1 begins with the arrival of the depression in France, the character, timing, and severity of the slump, and the importance of the overvaluation of the franc in explaining the French experience of the depression. Recent criticisms of this explanation that raise important questions about domestic forces in the business cycle in France are discussed; these qualify rather than contradict the exchange-rate explanation. The chapter then surveys con-

<sup>19</sup> *L'Europe nouvelle*, 28 May 1938, cited in Robert Marjolin, *Le Travail d'une vie: Mémoires, 1911-1986* (Paris: Laffont, 1986), 78. For recent assessments of the links between French economic and military decline, see René Girault, "The Impact of the Economic Situation on the Foreign Policy of France, 1936-9," in *The Fascist Challenge and the Policy of Appeasement*, ed. Wolfgang J. Mommsen and Lothar Kettenacker (London: Allen & Unwin, 1983), 209-26; Robert Frankenstein's "The Decline of France and French Appeasement Policies, 1936-9," in *ibid.*, 236-45; and Bradford A. Lee, "Strategy, Arms and the Collapse of France, 1930-40," in *Diplomacy and Intelligence during the Second World War*, ed. Richard Langhorne (Cambridge University Press, 1985), 63-6.

<sup>20</sup> Peter Temin provides a general indictment of the gold standard as a policy regime paralyzing policy initiatives in all countries so long as their currencies remained shackled to gold in *Lessons from the Great Depression* (Cambridge, Mass.: MIT Press, 1989). See also Barry Eichengreen, "The Gold-Exchange Standard and the Great Depression," in his *Elusive Stability: Essays in the History of International Finance, 1919-1939* (Cambridge University Press, 1990), 239-70.

temporary perceptions of the onset of the crisis among economists, journalists, and politicians across the political spectrum in France. For those influential in policy making, these views determined the framework in which solutions were considered and policies were adopted.

Chapters 2 and 3 cover French policy making with regard to gold and international economic cooperation. The rapid growth of French gold reserves in 1929 and 1930 drew strong criticism from abroad, particularly from Britain, where French gold accumulation was blamed for the severity of the depression. Chapter 2 analyzes French gold policy from 1928 to 1932: the understanding of the problem, efforts at cooperation with Britain to control gold movements, assistance in trying to save the pound sterling in the summer of 1931, and the final rush of gold acquisition in 1932 as France liquidated its foreign exchange holdings. French understanding of the gold standard promoted a passive monetary policy that would continue beyond the period of gold acquisition, while the large accumulation of gold reserves convinced policy makers that they were following the right course. Chapter 3 deals with French preparation for and participation in the World Economic Conference in London. In 1933, French policy evolved from complacency with regard to a crisis for which France felt no responsibility to conviction that currency depreciation threatened to destroy the monetary foundation of economic and social order and that exchange-rate stabilization was the essential first step to economic recovery. When Britain and the United States refused to undertake exchange-rate stabilization at the conference, France led countries still on the gold standard to form the gold bloc in order to preserve their currencies against speculative pressures. But France provided little direction or encouragement in coordinating monetary policy or in seeking recovery through increased trade within the group.

Chapters 4 and 5 focus on the institutional forces in French management of domestic monetary affairs. Chapter 4 analyzes the role of the Bank of France in policy making, concentrating on three aspects: the Bank's unsuccessful efforts to increase the international power and prestige of the Paris capital market; its difficulties in controlling the domestic money market owing to strained relations with the commercial banks and its failure to make active use of the policy instruments available to it; and the slow evolution of interest-rate policy as the Bank tried to use this one instrument to accomplish two contradictory objectives, defense of the franc and the fostering of economic recovery. Chapter 5 covers Treasury influence in monetary affairs, paying particular attention to the growth of budget deficits in the early 1930s and the constant strain this placed on the Treasury in financing government

spending. This strain was important in gradually changing Treasury opinion with regard to interest-rate policy, the feasibility and efficacy of continued deflation, and eventually defense of the franc. It also examines the conflict between the Treasury and the Bank of France over interest-rate policy, which resulted in moves toward greater Treasury control of monetary policy, culminating in the *de facto* nationalization of the Bank in 1936.

The last two chapters center on the problem of devaluation in France from 1933 to 1936. Chapter 6 examines the devaluation debate in this period, focusing on the alignment of political and economic forces that it produced, the arguments developed for and against devaluation, the reasons for the strength of the case against devaluation, and the decline of this strength in 1935 and 1936. The evolution of Paul Reynaud's views and his key role in the campaign for devaluation are also assessed. The public and political character of the debate was extremely important; devaluation ceased to be an economic question. Chapter 7 follows it as a political issue after the election of the Popular Front government in order to show the Blum government's difficulties in deciding to devalue and in acting effectively on the decision. Many of the opponents of devaluation publicly accepted its necessity in 1936, but the Popular Front was unable to undertake devaluation until driven to it in desperation in September 1936. The negotiation of the Tripartite Accord and the devaluation of the franc are reassessed in light of archival sources that have only recently become accessible. This reexamination reveals how reluctantly devaluation was undertaken and how political concerns dominated economic policy, contributing to the failure of devaluation to bring about economic recovery.

Throughout, the primary concern is the formulation of policy; this book seeks to explain the "irrational" quality of French policy making and investigates the influence of the depression on French perceptions of economic problems and policy determination. It focuses on those in a position to decide or to influence policy.<sup>21</sup> The limited availability of sources restricts the scope of the study in one important respect: The lack of cabinet records, the irregular preservation of material in the Ministry of Finance archives, and the selective character of the discussions recorded in the minutes of the Conseil général of the Bank of

<sup>21</sup> The cast of characters is large. For reference purposes, the Appendix to this volume provides the names and dates of the many French premiers and ministers of finance from 1928 to 1936, as well as the positions of key administrators who appear frequently in the text, and distinguishes between the Caisse d'amortissement and the Caisse des dépôts et consignations, whose operations affected Bank of France control of the money market and Treasury finances in the years of budget deficits.

France leave wide gaps in our knowledge of how most decisions were made. Between 1926 and 1928, for example, the minutes of the Conseil général weekly meetings include no discussion of the stabilization of the franc. Emile Moreau's *Souvenirs d'un gouverneur de la Banque de France* is an extraordinarily valuable source that fills in details on the struggles both within the Bank and between Moreau and Poincaré on this matter. No comparable source has been found to elucidate the activities of the Bank with regard to defense of the franc from 1934 to 1936. The records available at the Bank of France, the Ministry of France, and the Ministry of Foreign Affairs tell us little of the decision to devalue or the negotiation of the Tripartite Accord. French policy can be reconstructed only cautiously for this period, given the limitations of the sources available.<sup>22</sup>

However, sufficient material is available in government archives, the personal papers of politicians, memoirs, and the journals and newspapers of the time to explore the atmosphere in which decisions were made, as well as the perceptions and understanding of the problems that the policies were intended to remedy. The limited records available on actual decision making can then be examined within the contexts of economic understanding and political possibility. Defense of the franc was not irrational in the sense that it lacked mental clarity or coherence. French monetary management during the years of the franc Poincaré was based on an understanding of economics, the world depression, and French political psychology that generated a misleading diagnosis of the crisis. Policy makers came to realize this only slowly and imperfectly, and the nature and timing of that realization explain much of the "irrationality" of French policy during the depression.

<sup>22</sup> The difficulties and weaknesses of using documentary sources in reconstructing French economic policy after the Second World War are explored in a remarkable "dialogue" between a historian and a participant in François Bloch-Lainé and Jean Bouvier, *La France restaurée, 1944-1954: Dialogue sur les choix d'une modernisation* (Paris: Fayard, 1986).